THE TRUTH BEHIND 'FAST RUNWAY'

In recent months, we've seen a lot of press coverage about what is being characterized as a fundamental shift in the fashion industry: the transformation of runway shows from previews of collections that will be available in 4-6 months to a real-time catalog of goods that are available for purchase immediately. Burberry was one of the first brands to make the switch by showing their Spring 2016 product in February 2016 and making it available for sale at the same time. Many other brands followed suit thereafter, or at least announced their intention to do the same.

In general, the conversation about this shift has centered around how revolutionary this "fast runway" trend is – that the brands have figured out how to bring products to market faster! A closer look at what's really happening however tells a different story. The reality is that what brands are doing is shifting their marketing efforts, and making little to no change in when they place production orders.

REALITY CHECK

Traditionally, fashion brands show their Spring collections in the prior Fall, obtain sales orders from the market, place productions orders, and deliver in the Spring. What we're witnessing is not a revolution in speed to market, but rather a shift in philosophy. Brands like Burberry and Tom Ford have effectively abandoned the fashion show as a kickoff to a typical wholesale make-to-order model in favor of a combination of private showings and a retail make-to-plan model. To fully understand the implication of this model shift, there are two important points to consider.

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First, in a wholesale model a brand presents its line, obtains advance orders from retailers and only then schedules its production – placing virtually all of the inventory risk on the retailer. Whereas in a retail model, the purchases are made entirely on anticipated, or planned sales demand – by the time a retailer communicates its line to a consumer via any of its marketing vehicles, they are already sitting on inventory. Therefore, the real difference between a wholesale and retail model is that the former places its production orders based on committed demand, while the latter commits to inventory based on planned demand. To put it another way, the fashion media is applauding the likes of Burberry for taking on the risk of pre-ordering inventory so that when they show product on the runways, it's available for the consumer to purchase.

Which leads us to the second point: unless a brand drastically changes its approach to sourcing and production, lead times are what they are. These claims that a brand is suddenly enabling 'Fast Runway' by reducing its development and production lead times by several months are enticing, but generally untrue. Let's break it down: it takes at least 30 days to source, make and deliver fabric (up to 60 days for long lead time materials); 30-45 days to produce finished garments; and another 30-50 days to transport finished goods from factory to stores.

Assuming that the entire production cycle is handled sequentially, those timelines add up to 90-155 days, not including the time that it takes to design, develop, and sample the product. Clearly there are steps that can be taken to reduce that total. Fabric decisions can be made well in advance, removing 30-60 days from the timeline, although that introduces a risk in fabric liabilities and forces design teams into using those fabrics. Production can be moved closer to the ultimate points of sale, typically accompanied by higher labor costs, but with increasingly global distribution, where exactly is that? Air shipping, smaller production runs, and pre-positioning assets throughout the supply chain will always be options that are proven to be able to reduce some lead times by weeks, but these will always be exceptions to the rule – quite simply these techniques are too expensive and complicated to manage to serve as primary approaches for most of the industry.

IT'S ALL ABOUT PLANNING

If we accept the notion that brands are switching to a retail make-to-plan model, then it is clear to us that the winners will be those that can plan with the least variance and adjust throughout the season.

Let's first establish the fact that *a brand is a manufacturer* – at the end of the day, a brand is generally responsible for the design, development and production of product, whether it produces those goods directly through factories (owned or contracted) or through the use of agents. There is a widely adopted concept among consumer packed goods (CPG) manufacturers called Sales & Operations Planning (S&OP) - a way to continuously plan demand, supply, and appropriately balance the two competing activities. So why wouldn't a fashion brand engage in something similar? In fact, brands as well as retailers should embrace the S&OP concept. We like to refer to this concept as Merchandise, Inventory and Operations Planning (MIOP), which we feel is a more appropriate way to describe the relevant activities in our industry.

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Our fundamental belief is that brands and retailers need to do a much better job planning for and balancing demand with supply (or in our industry's case, inventory). A well implemented MIOP process enables disciplined planning and introduces clear rules as well as procedures for managing exceptions. The core objective of the process is to continuously balance unconstrained demand with constrained production or supply of inventory, in an effort to achieve a company's desired strategic and financial goals. It is not an activity that happens once a month or quarter. Instead it is ongoing active management to determine what inventory is needed where, when, and at what levels – while balancing cost and risk.

The more vertical a company is the more complexity is involved, since planning for inventory flows can include production scheduling and even fabric planning and sourcing. And finally, the need for using a MIOP approach is applicable to both replenished products as well as one-time seasonal sets, particularly if a brand or retailer has presence in multiple regions (where the same season may have different start dates or where both warm and cold weather markets are served simultaneously.)

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This is not a trivial process, especially for a wholesale brand making the switch to a retail make-to-plan model. (For example, demand planning takes on a whole new meaning – it is no longer based on taking pre-orders from customers, but instead it is based on determining a forecasted demand of sales.) As in CPG, the biggest challenge always is in balancing the unconstrained demand with constrained production and inventory flows. No one ever gets it completely right. In a MIOP approach, the process is further enhanced to introduce a set of rules and procedures to help manage various exceptions such as who gets fulfilled and who gets shorted during any given planning cycle or rolling production schedule, should there be a constraint. It is a critical process where merchandise planning, open-to-buy management, sourcing, and supply planning all come together in an orchestrated manner. Getting this right is what will separate the successful retailers as well as wholesalers-turned-retailers from the rest of the market.

A closing thought on this consumer-oriented 'fast runway' trend. We should note that what has been achieved so far is quite compelling – transitioning from a model where heavy investments are made into fashion shows and turning it into consumer oriented marketing at almost no incremental cost or effort. However, this shift has profound operational implications - in addition to the kind of planning that we laid out earlier, brands must also introduce an entirely new set of capabilities to continuously evaluate and manage their supply chains to maintain flexibility, scalability and responsiveness. While this shift has generated a lot excitement, both from media and consumers, there is now a new risk that needs to be managed – one misstep in how production and inventory flows are managed for any given season can lead to disastrous financial results. Just look at earnings statements from many vertical retailers over the past few years and you'll find a common theme – drops in profitability resulting from heavy discounting of over-stocked inventory levels, driven from a lack of accurate demand and corresponding supply plans. Misses in merchandise and inventory levels will happen, but with the right planning processes in place, those misses can certainly be minimized.

Want to learn more?

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